



Report to the Auburn City Council

Action Item
Agenda Item No. **3**

City Manager's Approval
[Signature]

To: Honorable Mayor and City Council Members
From: George E. Williams, City Treasurer
Andy Heath, Administrative Services Director
Date: November 22, 2010
Subject: Quarterly Report of Investments – Quarter Ending September 30, 2010

The Issue

The City Council is required by state law and the City of Auburn's Investment Policy to receive and review a Quarterly Investment Report.

Recommended Action Requested

Receive, review and file the "City of Auburn Quarterly Investment Report" for the quarter ending September 30, 2010.

Background

The City of Auburn Quarterly Investment Report (Investment Report) for the quarter ending September 30, 2010 has been prepared in compliance with the reporting requirements as set for in the State of California Government Code Sections 53600 et seq. and the City of Auburn Investment Policy. The Investment Report contains the following information:

- Identification of the type of each investment held in the City's Treasury;
- Identification of the legal name of the issuer or fiduciary of each investment held in the City's Treasury;
- A listing of the dollar amount invested for each item in the Treasury Portfolio;
- A listing of the maturity date of those investments having fixed maturities;
- A confirmation that the reported investments conform to the City's adopted investment policy; and
- A confirmation of the City's ability to meet its pooled expenditure requirements for the next six months.

AnalysisINVESTMENT SUMMARYCity of Auburn Pooled Investment Accounts:

<i>For the quarter ended:</i>	<u>September 2010</u>	<u>June 2010</u>	<u>September 2009</u>
Portfolio value – end of quarter:	\$9,922,183	\$10,537,892	\$9,299,726
Portfolio effective yield – end of quarter:	2.08%	1.88%	2.26%
Dollar-weighted days to maturity – end of quarter:	731	587	509
Portfolio interest earnings (1) – end of quarter:	\$53,928	\$52,099	\$39,007
Net unrealized gain / (loss) (2) – end of quarter:	\$3,242	\$33,728.	\$36,113

Auburn Urban Development Authority Account:

<i>For the quarter ended:</i>	<u>September 2010</u>	<u>June 2010</u>	<u>September 2009</u>
Portfolio value – end of quarter:	\$1,958,182	\$2,633,183	\$4,705,558
Portfolio effective yield – end of quarter:	3.82%	2.85%	2.33%
Dollar-weighted days to maturity – end of quarter:	216	228	244
Portfolio interest earnings (1) – end of quarter:	\$865	\$38,957	\$3,651

Sewer Revenue Bond Proceeds Account

<i>For the quarter ended:</i>	<u>September 2010</u>	<u>June 2010</u>	<u>September 2009</u>
Portfolio value – end of quarter:	\$3,879,191	\$5,751,340	\$8,214,558
Portfolio effective yield – end of quarter:	1.24%	1.04%	0.80%
Dollar-weighted days to maturity – end of quarter:	371	296	382
Portfolio interest earnings (1) – end of quarter:	\$2,040	\$25,390	\$689

- (1) Interest earnings on investments distributed to City during reporting quarter.
- (2) Unrealized “paper” gains / (losses) on investments due to fluctuations in market value. Unrealized gains and losses impact interest earnings each month as the City is required to account for and book investments at marketable value.

PORTFOLIO / TREND ANALYSIS

As a means to account for the investment of both Auburn Urban Development Authority (AUDA) and Wastewater Treatment Facility Upgrade Project bond proceeds received in October 2008 and August 2009, respectively, the Investment Report includes appropriate analysis for these separately invested funds. In addition to the table presented as part of the Investment Summary above, attachments to this report have also been updated to include appropriate investment information related to the bond proceeds held in trust.

Attachment A provides detailed information for each of the City’s investments as of the quarter ended September 30, 2010. Investments are categorized into one of five groups:

Fixed Rate Investments: Investments purchased which pay interest on a periodic basis at a fixed coupon / stated rate. Discounted commercial paper is also included in this group. Fixed Rate Investments, consistent with the City’s Investment Policy, are generally held to maturity and not sold in the open market.

Pooled Investments: Monies pooled with the State of California (Local Agency Investment Fund) and Placer County (County Investment Pool) which are generally available on a daily basis.

Unrestricted Financial Institution Investments: Unrestricted operating account monies available in demand accounts for accounts payable, payroll and jet fuel-related accounts. Certificates of deposit and money market accounts are also included with this group.

Restricted Financial Institution Investments: Restricted demand accounts maintained for the payment of obligations for designated city programs.

AUDA / Sewer Revenue Bond Proceeds: All bond proceeds are invested separate from the pooled investment accounts. Bond proceeds are invested consistent with anticipated project payment schedules and have been placed in the CDARS Certificate of Deposit Program, which is 100% FDIC insured. Matured CDARS investments remain with the Bond Proceeds Trustee in a liquid money market account until drawn on by the City to cover applicable project expenditures.

Attachment B provides investment trend information for the last nine quarters. The City's investment portfolio yield as of September 30, 2010 is 2.08%. The effective yield has increased 20 basis points (0.20%) when compared to the yield reported for quarter ended June 30, 2010 (1.88%). The increase in yield can be primarily attributed to the investment of idle pooled funds formerly held in the City's Wells Fargo checking accounts (yields nothing) into a longer-term Government Sponsored Enterprise (GSE) bond (yields approximately 2.00%). While placing emphasis on the safety and liquidity of invested funds, the City continues to seek higher-yielding investment alternatives as existing investments mature or are called.

During the quarter ended September 30, 2010, the City realized \$53,928 in investment earnings. In addition to the investment earnings, the City experienced a \$3,242 unrealized gain in portfolio market value. Unrealized market gains and losses, which are required to be amortized into the portfolio value, fluctuate from month-to-month in response to overall market conditions.

As discussed in previous investment reports, Lehman Brothers, the fourth largest investment bank in the United States at the time, filed for bankruptcy on September 15, 2008. The Lehman Brothers bankruptcy, which followed by only a week the Federal Government "bail out" of Fannie Mae and Freddie Mac, provided an indication of the severe financial market turmoil to come as a result of the unwinding of loose lending policies and excessive credit provided during the housing boom over the past decade. At the time of the Lehman bankruptcy, the City owned a medium-term corporate bond in Lehman Bros. Holdings in the amount of \$125,000. The value of the bond as of June 30, 2010 was \$24,687. The unrealized loss of \$100,313 has been fully amortized as a component of investments earnings.

In response the bankruptcy action taken by Lehman, City staff continues to monitor ongoing bankruptcy proceedings (the City has filed a claim) and the investigation and prosecution of a case against certain individuals or entities responsible for losses stemming from the City's investment in Lehman Bros. Staff also continues to review correspondence from a working group of more than 80 cities, counties and special districts with combined Lehman exposure of approximately \$1.67 billion, seeking reimbursement of losses through the array of governmental programs introduced in response to the significant economic downturn (TARP, Jobs Bill, etc.).

During the quarter ended September 30, 2010, the City's pooled investment portfolio decreased by approximately \$600,000 (not including bond proceeds held in trust). The decrease in portfolio value can be primarily attributed to the "dry-period financing" of recurring debts using cash on hand as the City awaits receipt of major property and related tax collection installment payments in January and May of each year.

All investments held at June 30, 2010 conform to the City's Investment Policy and the State of California Government Code. Based on the Administrative Services Department's cash flow projection as of September 30, 2010, funds on deposit and anticipated revenue collections for the period October 1, 2010 through March 31, 2011 are sufficient to meet all anticipated City expenditures during the same period.

PORTFOLIO INVESTMENT EARNINGS

Below is a comparison of actual Investment earnings on the City's portfolio to the fiscal year 2010-11 budget.

<u>Net Investment Earnings</u>	<u>Yield</u>	<u>General Fund</u>	<u>Other Funds</u>
<i>Three Months Ending 09/30/10</i>			
Budget	2.00%	\$ 12,500	\$ 65,163
Actual (1)	2.09%	<u>5,143</u>	<u>54,934</u>
Variance		<u>(\$ 7,357)</u>	<u>(\$ 10,229)</u>

(1) Includes all portfolio funds (pooled investments and bond funds) and amortization of unrealized market value loss

Alternatives Available to Council; Implications of Alternatives

1. Request the City Treasurer to prepare supplemental information for review by the City Council at a future meeting.

Fiscal Impact

The current year-to-date yield on investment earnings actually received for the City's portfolio of investments is 2.09%. An average yield of 2.00% was forecasted in the City's adopted budget for Fiscal Year 2010-11. Attainment of interest revenues consistent with forecasted yields is directly contingent on average cash balances held in citywide funds.

Attachment A – Investment Portfolio Analysis

Attachment B – Treasury Investment Pool Quarterly Comparison

**City of Auburn
Portfolio Analysis
Quarter Ending September 30, 2010**

Attachment A

9/30/2010

	<u>Market Value</u>	<u>Current Yield</u>	<u>Dollar Weighted Days to Maturity</u>
<u>Fixed Rate Investments</u>			
US Government Bonds	\$ 5,067,490	2.22%	1,350
Corporate Notes	421,610	4.77%	573
Negotiable Certificates of Deposit	299,033	3.97%	183
Subtotal:	<u>\$ 5,788,133</u>		
Dollar-Weighted Average Yield:			<u>2.50%</u>
Dollar Weighted Days to Maturity:			<u>1,233</u>

Pooled Investments

State of California LAIF	\$ 41,927	0.51%	1
Placer County Investment Pool	2,166,262	2.15%	1
Subtotal:	<u>\$ 2,208,189</u>		
Dollar-Weighted Average Yield:			<u>2.12%</u>
Dollar Weighted Days to Maturity:			<u>1</u>

Unrestricted Financial Institution Investments

Wells Fargo Bank - Commercial Checking	\$ 759,660	0.00%	1
Wells Fargo Bank - Payroll Checking	78,397	0.00%	1
Wells Fargo Bank - Aviation Fuel Account	98,484	0.10%	1
Citizens Bank - Cert of Deposit	256,290	0.95%	226
Community First Bank - Cert of Deposit	500,000	2.27%	109
UMPQUA Bank Money Market	119,627	0.61%	1
Southwest Securities (Money Markets)	14,927	0.05%	1
	<u>\$ 1,827,385</u>		
Dollar-Weighted Average Yield:			<u>0.80%</u>
Dollar Weighted Days to Maturity:			<u>62</u>

City of Auburn
Portfolio Analysis
Quarter Ending September 30, 2010

Attachment A

9/30/2010

	Market Value	Current Yield	Dollar Weighted Days to Maturity
<u>Restricted Financial Institution Investments</u>			
Bank of America - Chiropractic Checking	\$ 4,643	0.00%	1
Bank of America - Vision Checking	1,498	0.00%	1
Bank of America - Dental Checking	10,469	0.00%	1
Bank of America - Landfill Closure Account	65,825	0.10%	1
Placer Sierra Bank - AUESD Relocation Account	16,041	0.00%	1
	<u>\$ 98,476</u>		
	Dollar-Weighted Average Yield: 0.07%		
			Dollar Weighted Days to Maturity: 1

Unrestricted Investment Portfolio Valuation	\$ 9,823,707	2.10%	738
Restricted Investment Portfolio Valuation	\$ 98,476	0.07%	1
Total Pooled Investments Portfolio Valuation	<u>\$ 9,922,183</u>	<u>2.08%</u>	<u>731</u>
Total AUDA Bond Proceeds Account	<u>\$ 1,958,182</u>	<u>3.82%</u>	<u>216</u>
Total Sewer Revenue Bond Proceeds Account	<u>\$ 3,879,191</u>	<u>1.24%</u>	<u>371</u>

City of Auburn
Bond Maturity - Detail
Quarter Ending September 30, 2010

Attachment A

9/30/2010

	<u>Market Value</u>	<u>Current Yield</u>	<u>Maturity</u>
<u>US Agency Bonds</u>			
Federal Farm Credit Bank (\$1,000K)	1,002,500	1.04%	2/9/2012
Federal National Mortgage Assn (\$500K)	544,065	3.79%	5/28/2013
Federal Home Loan Bank (\$500K)	503,905	1.61%	7/29/2014
Federal Farm Credit Bank (\$1,000K)	1,009,060	2.92%	2/2/2015
Federal Home Loan Mtg Corp (\$500K)	506,550	2.96%	4/15/2015
Federal National Mortgage Assn (\$500K)	500,470	2.12%	7/20/2015
Federal Farm Credit Bank (\$1,000K)	1,000,940	1.85%	8/24/2015
Subtotal:	\$ 5,067,490		
		Dollar-Weighted Average Yield:	2.22%
		Dollar Weighted Days to Maturity:	1,350

Corporate Notes

HSBC Finance Corp (\$125K)	126,499	5.19%	1/14/2011
Lehman Brothers Holdings (\$125K)	27,656	0.00%	1/18/2012
Citigroup, Inc (\$125K)	133,213	5.07%	10/17/2012
Merrill Lynch (\$125K)	134,242	5.07%	2/5/2013
Subtotal:	\$ 421,610		
		Dollar-Weighted Average Yield:	4.77%
		Dollar Weighted Days to Maturity:	573

Negotiable Certificates of Deposit

Discover Bank (\$98K)	98,509	3.98%	11/29/2010
Capmark Bank (\$98K)	100,262	3.96%	5/31/2011
Provident Bank (\$98K)	100,262	3.96%	5/31/2011
Subtotal:	\$ 299,033		
		Dollar-Weighted Average Yield:	3.97%
		Dollar Weighted Days to Maturity:	183

UBOC Total Valuation:	\$ 5,788,133	2.50%	1,233
Cost Basis:	\$ 5,796,285		
Net Unrealized Gain / (Loss):	\$ (8,152)		

**CITY OF AUBURN
TREASURY INVESTMENT POOL
QUARTERLY COMPARISONS**

Attachment B

	Investment Amounts at 09/30/10	Current Investment Yield	Investment Amounts at 06/30/10	Current Investment Yield	Investment Amounts at 03/31/10	Current Investment Yield
State of California L.A.I.F.	\$ 41,927	0.51%	\$ 41,869	0.56%	\$ 41,812	0.55%
Placer County Treasury Investment	2,166,262	2.15%	2,153,928	2.34%	2,143,046	2.21%
US Gov't/Agency Bonds (held by UBOC)	5,067,490	2.22%	4,545,006	2.22%	4,776,334	2.16%
Negotiable Certs. of Deposit (held by UBOC)	299,033	3.97%	301,113	3.94%	401,356	3.87%
Corporate Notes (held by UBOC)	421,610	4.77%	412,455	4.85%	421,473	4.75%
Southwest Securities (Formerly ML Stern)	14,927	0.05%	14,927	0.09%	14,927	0.09%
Citizens Bank (CDARS Program)	256,290	0.95%	255,678	0.95%	255,075	0.95%
Wells Fargo Bank (Checking / Payroll / Fuel)	936,541	0.00%	2,117,126	0.00%	377,458	0.00%
Bank of America (Landfill Trust Account)	65,825	0.10%	43,511	0.10%	70,654	0.10%
Bank of America (Vision Account)	1,498	0.00%	3,067	0.00%	3,169	0.00%
Bank of America (Dental Account)	10,469	0.00%	9,011	0.00%	9,051	0.00%
UMPOUA Bank (Money Market Demand)	119,627	0.61%	119,452	0.63%	395,633	0.64%
Community First Bank (Cert. of Deposit)	500,000	2.27%	500,000	2.27%	500,000	2.27%
Wells Fargo Bank (AUESD Relocation)	16,041	0.00%	16,041	0.00%	16,041	0.00%
Bank of America (Chiropractic Care Acct)	4,643	0.00%	4,708	0.00%	4,771	0.00%
Totals	\$ 9,922,183	Overall Yield = 2.08%	\$ 10,537,892	Overall Yield = 1.88%	\$ 9,430,800	Overall Yield = 2.15%
AUDA / Sewer Bond Proceeds Accounts						
Reliance Trust - AUDA (CDARS Program)	\$ 1,958,182	3.82%	\$ 2,633,183	2.85%	\$ 2,909,556	2.58%
Reliance Trust - Sewer (CDARS Program)	\$ 3,879,191	1.24%	\$ 5,751,340	1.04%	\$ 6,988,977	0.97%
Summary of Investments						
	<u>9/30/2010</u>		<u>6/30/2010</u>		<u>3/31/2010</u>	
State Pool	0.3%	\$ 41,927	0.2%	\$ 41,869	0.2%	\$ 41,812
County Pool	13.7%	2,166,262	11.4%	2,153,928	11.1%	2,143,046
Corporate Bonds	2.7%	421,610	2.2%	412,455	2.2%	421,473
U.S. Agencies	32.2%	5,067,490	24.0%	4,545,006	24.7%	4,776,334
Negotiable Certificate of Deposit	1.9%	299,033	1.6%	301,113	2.1%	401,356
Financial Institutions	12.2%	1,925,861	16.3%	3,083,521	8.5%	1,646,779
Bond Proceeds / Debt Svc Reserve	37.0%	5,837,373	44.3%	8,384,523	51.2%	9,898,533
Investment Total	100.0%	\$ 15,759,556	100.0%	\$ 18,922,415	100.0%	\$ 19,329,333

**CITY OF AUBURN
TREASURY INVESTMENT POOL
QUARTERLY COMPARISONS**

Attachment B

<u>City of Auburn Pooled Investment Accounts</u>							
	Investment Amounts at 12/31/09	Current Investment Yield		Investment Amounts at 9/30/09	Current Investment Yield	Investment Amounts at 6/30/09	Current Investment Yield
State of California I.A.I.F.	\$ 41,748	0.60%		\$ 41,654	0.75%	\$ 41,498	1.51%
Placer County Treasury Investment	2,132,456	2.08%		2,119,275	2.69%	2,105,898	2.70%
US Gov't/Agency Bonds (held by UBOC)	1,532,190	3.27%		2,538,595	3.15%	2,525,625	3.16%
Negotiable Certs. of Deposit (held by UBOC)	402,420	3.86%		502,164	3.79%	500,845	3.81%
Corporate Notes (held by UBOC)	415,539	4.81%		408,338	4.90%	386,514	5.17%
Southwest Securities (Formerly ML Stern)	14,927	0.09%		14,927	0.09%	14,927	0.15%
Citizens Bank (CDARS Program)	1,004,808	1.72%		1,004,803	1.72%	1,000,041	2.13%
Wells Fargo Bank (Checking / Payroll / Fuel)	774,777	0.01%		1,525,946	0.01%	3,236,017	0.01%
Bank of America (Landfill Trust Account)	116,487	0.20%		93,998	0.20%	122,090	0.20%
Bank of America (Vision Account)	3,238	0.00%		3,305	0.00%	3,373	0.00%
Bank of America (Dental Account)	9,181	0.00%		9,281	0.00%	9,321	0.00%
UMFQUA Bank (Money Market Demand)	395,005	0.68%		516,500	0.89%	515,145	1.54%
Community First Bank (Cert. of Deposit)	500,000	2.30%		500,000	2.27%	500,000	2.27%
Wells Fargo Bank (AUUSD Relocation)	16,041	0.00%		16,041	0.00%	16,041	0.00%
Bank of America (Chiropractic Care Acct)	4,835	0.00%		4,899	0.00%	4,964	0.00%
Totals	\$ 7,363,652	Overall Yield = 2.20%		\$ 9,299,726	Overall Yield = 2.26%	\$ 10,982,299	Overall Yield = 1.98%
<u>AUDA / Sewer Bond Proceeds Accounts</u>							
Reliance Trust - AUDA (CDARS Program)	\$ 3,321,478	2.53%		\$ 4,705,558	2.33%	\$ 4,701,907	2.41%
Reliance Trust - Sewer (CDARS Program)	\$ 7,584,477	0.74%		\$ 8,214,458	0.80%	N/A	
<u>Summary of Investments</u>							
	<u>12/31/2009</u>			<u>9/30/2009</u>		<u>6/30/2009</u>	
State Pool	0.2%	\$ 41,748		0.2%	\$ 41,654	0.3%	\$ 41,498
County Pool	11.7%	2,132,456		9.5%	2,119,275	13.4%	2,105,898
Corporate Bonds	2.3%	415,539		1.8%	408,338	2.5%	386,514
U.S. Agencies	8.4%	1,532,190		11.4%	2,538,595	16.1%	2,525,625
Negotiable Certificate of Deposit	2.2%	402,420		2.3%	502,164	3.2%	500,845
Financial Institutions	15.5%	2,839,299		16.6%	3,689,700	34.6%	5,421,919
Bond Proceeds / Debt Svc Reserve	59.7%	10,905,955		58.1%	12,920,016	30.0%	4,701,907
Investment Total	100.0%	\$ 18,269,607		100.0%	\$ 22,219,742	100.0%	\$ 15,684,206

**CITY OF AUBURN
TREASURY INVESTMENT POOL
QUARTERLY COMPARISONS**

Attachment B

City of Auburn Pooled Investment Accounts

State of California L.A.I.F.
Placer County Treasury Investment
US Gov't/Agency Bonds (held by UBOC)
Negotiable Certs. of Deposit (held by UBOC)
Corporate Notes (held by UBOC)
Southwest Securities (Formerly ML Stern)
Citizens Bank (CDARS Program)
Wells Fargo Bank (Checking / Payroll / Fuel)
Bank of America (Landfill Trust Account)
Bank of America (Vision Account)
Bank of America (Dental Account)
UMPOVA Bank (Money Market Demand)
Community First Bank (Cert. of Deposit)
Wells Fargo Bank (AUESD Relocation)
Bank of America (Chiropractic Care Acct)

Totals

AUDA / Sewer Bond Proceeds Accounts

Reliance Trust - AUDA (CDARS Program)
Reliance Trust - Sewer (CDARS Program)

Summary of Investments

State Pool
County Pool
Corporate Bonds
U.S. Agencies
Negotiable Certificate of Deposit
Financial Institutions
Bond Proceeds / Debt Svc Reserve
Investment Total

	Investment Amounts at 3/31/09	Current Investment Yield	Investment Amounts at 12/31/08	Current Investment Yield	Investment Amounts at 09/30/08	Current Investment Yield
	\$ 41,304	1.91%	\$ 41,042	2.77%	\$ 40,757	2.77%
	2,092,554	3.08%	2,076,409	3.33%	2,056,926	4.14%
	1,536,250	3.67%	3,037,300	3.96%	4,481,230	4.03%
	501,189	3.80%	496,220	3.84%	484,357	3.94%
	335,740	5.96%	373,686	5.35%	362,325	5.52%
	14,927	0.15%	14,926	1.33%	14,902	2.66%
	1,000,041	2.13%	-	0.00%	-	0.00%
	3,588,385	0.10%	1,063,621	0.45%	1,319,013	1.80%
	112,731	0.30%	112,731	0.30%	128,786	0.30%
	3,438	0.00%	3,494	0.00%	3,572	0.00%
	9,256	0.00%	9,405	0.00%	9,425	0.00%
	513,048	2.54%	510,473	2.54%	1,054,972	2.90%
	-	0.00%	-	0.00%	-	0.00%
	16,041	0.00%	16,041	0.00%	16,041	0.00%
	5,027	0.00%	5,086	0.00%	5,148	0.00%
<i>Totals</i>	\$ 9,769,931	Overall Yield = 2.00%	\$ 7,760,434	Overall Yield = 3.20%	\$ 9,977,454	Overall Yield = 3.62%
	\$ 4,621,211	3.43%	\$ 4,602,133	3.43%	N/A	
	N/A		N/A		N/A	
<u>3/31/2009</u>			<u>12/31/2008</u>		<u>9/30/2008</u>	
State Pool	0.3%	\$ 41,304	0.3%	\$ 41,042	0.4%	\$ 40,757
County Pool	14.5%	2,092,554	16.8%	2,076,409	20.6%	2,056,926
Corporate Bonds	2.3%	335,740	3.0%	373,686	3.6%	362,325
U.S. Agencies	10.7%	1,536,250	24.6%	3,037,300	44.9%	4,481,230
Negotiable Certificate of Deposit	3.5%	501,189	4.0%	496,220	4.9%	484,357
Financial Institutions	36.6%	5,262,894	14.0%	1,735,777	25.6%	2,551,859
Bond Proceeds / Debt Svc Reserve	32.1%	4,621,211	37.2%	4,602,133	0.0%	N/A
Investment Total	100.0%	\$ 14,391,142	100.0%	\$ 12,362,567	100.0%	\$ 9,977,454

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